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SUBJECT: GOE LOOKS AT RETAIL AND DISTRIBUTION SECTOR

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¶1. (SBU) FCS and Econ counselors met recently with the Minister of Trade and Industry's newly hired advisor for internal markets, Sahar El Salab. El Salab was until recently a vice president of CIB, Egypt's largest private bank. In her new role, she is charged with reforming Egypt's internal markets, from the supply chain to modern retail practices.

¶2. (SBU) According to El Salab, the GOE has focused its reform efforts on manufacturing, SME development and trade. No one, she said, had ever looked at the end of the supply chain. Egypt has been suffering from significant price inflation over the past two years. Some of this has been due to external price shocks from oil and other commodities. Another portion is attributable to GOE energy price hikes and increases in public sector salaries. Additionally, there have also consistently been price spikes at times of high consumer spending, ie., during Ramadan, around the major holidays and in the lead up to the opening of school. The GOE has tried, in recent years, to control price gauging. Last Ramadan, for example, Prime Minister Nazif said that in addition to distributing Ramadan bags to 1 million poor families, the government would also to actively enforce consumer protection laws and respond to complaints.

EGYPTIAN PRICES VERY STICKY DOWNWARD

¶3. (U) Despite these efforts, and current international deflationary trends, prices continue to rise. Egyptian producer prices were up 16.9 percent year-on-year in October over 2007, down from 22.7 percent in September, but still high given the economic slowdown. In part due to the intractability of inflation in Egypt, and the need to promote development and economic activity in Upper Egypt, the cabinet has decided to pay more attention to the internal market, particularly in Upper Egypt. Prime Minister Nazif first mentioned his plans to address problems in the internal market in a meeting with the Ambassador this past summer. More recently, Minister of Transport Mansour announced plans for nearly LE 18 billion (USG 3.27b) in infrastructure investments, aimed mainly at upgrades to ports, roads, railroads and bridges.

¶4. (SBU) In the GOE analysis, however, the problem extends beyond infrastructure. Minister of Trade and Industry Rachid has decided more attention should be paid to the retail sector. According to El Salab, informal operators and kiosks control the prices for the lion's share of consumer products in Egypt. Manufacturers have little control over final prices charged for their goods. The newly created Competition Authority has concluded that there is price fixing and collusion, she said, but finds it very hard to investigate and address the problem when violators are networks of informal distributors and retailers.

¶5. (SBU) In addition to competition problems, manufacturers, she said, are operating at fifty percent capacity because of problems with utilities, the distribution chain, links to retailers and other barriers in the internal market. Farmers lose a substantial percentage of their crops getting them to market, and face food safety issues in the case of poultry, cheese and milk, for similar reasons. This affects profitability, discourages investment, and

raises consumer prices. The GOE wants to improve the marketability of Egyptian products, and wants Egyptians to have access to the same quality of products that Egypt companies are now providing to the export market.

¶6. (SBU) The solution, according to El Salab, is to modernize the retail sector. This will require a number of reforms and incentives, she said, which have the support of President Mubarak and Prime Minister Nazif. First, she has been charged with identifying land for development of the retail sector, and putting together the appropriate infrastructure to attract investment by large retail developers in larger regional centers outside of Cairo and Alexandria, both in the Delta and Upper Egypt. The ministry plans to oversee the establishment of a private equity fund to promote investment in retail. El Salab has been in contact with a number of large retailers, including, she said, Carrefour (which has two stores in Egypt and is opening two more soon), as well as Ikea and other major retailers.

A NEW FRANCHISE LAW

¶7. (SBU) Legal reform will also be required. According to El Salab, some of the regulations governing the operations of the internal market date back to 1952. Fines, for example, are very low and not a disincentive to violating anti-competition and consumer protection laws. In a recent meeting with senior MTI advisor Samiha Fawzy, Fawzy asked officials from Commerce's Commercial Law Development Project to consider providing assistance to MTI in drafting a new franchise law. This, they hope, would promote the expansion of U.S. and international franchise activities in Egypt. Fawzy underlined that the introduction of franchises in every sector would promote modern business practices; improve marketing, advertising and consumer service; and allow for the transfer of technology and management skills.

TDA COLD CHAIN STUDY WELL RECEIVED

¶8. (SBU) FCS has recently provided a TDA-funded comprehensive feasibility study for Cold Chain System for Upper Egypt to Assistant Minister Salab. The study proposes a cold chain system that will benefit the rural communities of Upper Egypt by expanding and sustaining jobs and incomes, and by increasing volume and market value of agricultural exports of selected horticultural commodities produced in the region. The study includes a proposal for the design and business plan for a pack house facility and the design for a cold store facility, and evaluates the cost effectiveness and funding eligibility of the proposed development actions. It also analyzes how the cold chain facility would contribute to trade capacity building in Upper Egypt through reducing post-harvest loss, enhancing quality and ensuring food safety, and increasing the profits from direct exports from Upper Egypt to Europe and the greater Middle East. The lack of an appropriate cold chain system is reported to be the dominant factor restraining the development of horticultural exports from Upper Egypt. Salab's initial reaction has been very positive and has informed us that she has already shared the study with some private investors.

NEXT STEPS

¶9. (U) FCS will lead an 18-member trade delegation from the Alexandria Chamber of Commerce to the Retail Expo in New York next month, where the Chamber is expected to sign an MOU with the National Retail Federation on retail management training. The delegation is also scheduled to meet with representatives from the Small Business Administration, OPIC, TDA, ExIm, State and Commerce in Washington.

Scobey